



Legislative Fiscal Bureau

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June 4, 2007

Senator Russell Decker, Senate Chair
Representative Kitty Rhoades, Assembly Chair
Joint Committee on Finance
State Capitol
Madison, WI 53702

Dear Senator Decker and Representative Rhoades:

In January, 2007, this office prepared estimates of general fund tax revenues for 2006-07 and the two years of the 2007-09 biennium. These figures were incorporated into the Governor's 2007-09 budget bill (SB 40).

This week, preliminary collections data through May became available. Based on our review of the collections data and the most recent economic forecast by Global Insight, Inc., we now believe that general fund tax revenues, under current law, will be higher than the amounts estimated last January by \$49 million in 2006-07.

The increase is primarily due to additional revenues from the individual income tax and the estate tax. Actual year-to-date collections of these taxes are higher than anticipated. In addition, corporate income and franchise and insurance premiums tax collections have exceeded expectations so far this year. Together, we believe the estimates for these four taxes should be increased by \$104 million in 2006-07. However, year-to-date revenues from the sales tax are significantly below the January estimates, and cigarette tax collections are also lower than anticipated. We believe the projections for these taxes should be reduced by \$55 million, for a net increase of \$49 million. The \$49 million amount is an increase of 0.4% over the January estimates. The following table shows the revised estimates for 2006-07. These figures do not include any of the tax law changes proposed by the Governor in SB 40.

TABLE 1

**General Fund Tax Revenue Estimates Under Current Law for 2006-07
(\$ Millions)**

	January, 2007 <u>Estimate</u>	June, 2007 <u>Estimate</u>	Difference <u>(June Over January)</u>
Individual Income	\$6,480.0	\$6,555.0	\$75.0
General Sales and Use	4,210.0	4,160.0	-50.0
Corporate Income and Franchise	880.0	890.0	10.0
Public Utility	282.7	282.7	0.0
Excise			
Cigarettes	303.0	298.0	-5.0
Liquor and Wine	42.0	42.0	0.0
Tobacco Products	17.5	17.5	0.0
Beer	9.4	9.4	0.0
Insurance Company	138.0	140.0	2.0
Estate	100.0	117.0	17.0
Miscellaneous Taxes	<u>80.0</u>	<u>80.0</u>	<u>0.0</u>
TOTAL	\$12,542.6	\$12,591.6	\$49.0

The revised estimates for 2006-07 are based primarily on year-to-date collections data. However, the May, 2007, national economic forecast by Global Insight, Inc. is less favorable than the January forecast. Real (inflation-adjusted) growth in gross domestic product is expected to be lower than the January forecast in 2007, 2008, and 2009, by 0.2%, 0.4%, and 0.1%, respectively. Expected growth in several other economic indicators has also been revised downward somewhat in 2008 and 2009. Personal income growth is now projected be lower than the January estimates by 0.2% in 2008 and 0.3% in 2009; growth in consumption expenditures has been revised downward by 0.3% in 2008 and 0.2% in 2009, and employment growth is expected to be lower by 0.3% in 2008 and 0.1% in 2009. Growth in corporate profits is expected to be 1.6% lower than the January estimate in 2008 and 1.7% higher in 2009.


In addition to its baseline forecast, Global Insight, Inc. prepares alternative optimistic and pessimistic forecasts each month. As in January, the May pessimistic forecast does not anticipate a recession during the next three years, but economic growth would be significantly lower than under the baseline forecast. Global Insight assigned a 20% probability to its pessimistic forecast in January but now has increased the probability to 25%.

As mentioned above, the \$49 million adjustment for 2006-07 would increase base-year revenues by about 0.4%. Given the relatively small magnitude of this increase, and the weaker economic forecast for 2008 and 2009, we believe that, in the aggregate, the January estimates for the 2007-09 biennium should not be revised at this time. There will likely be some changes in the

mix of revenue sources, but we believe the total estimates to be consistent with the available collections and forecast data.

We will continue to monitor tax collections data and economic developments and keep you apprised of any further modifications that may be necessary.

Sincerely,

A handwritten signature in black ink, appearing to be "Bob" or "Robert", written in a cursive style.

Robert Wm. Lang
Director

RWL/sas

cc: Members, Wisconsin Legislature